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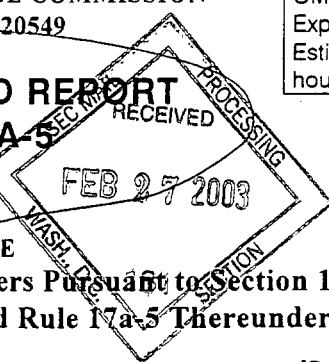


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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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ANNUAL AUDITED REPORT
FORM X-17A-5
PART II



SEC FILE NUMBER
8- 46677

BD# 35451

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/2002 AND ENDING 12/31/2002
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: SCA Development, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

ONE HEALTHSOUTH PARKWAY
(No. and Street)

Birmingham
(City)

AL
(State)

35243
(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

LISA BYRD

(205) 970-5599

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

ERNST & YOUNG LLP

(Name - if individual, state last, first, middle name)

5 TIMES SQUARE
(Address)

NEW YORK
(City)

NY
(State)

10036
(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
- ☐ Public Accountant
- ☐ Accountant not resident in United States or any of its possessions.

PROCESSED

MAR 13 2003

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THOMSON FINANCIAL

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

BN 3/12

OATH OR AFFIRMATION

I, Beall D. GARY, JR., swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of SCA Development, INC., as of December 31, 20 02, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:


Signature

PRESIDENT, SCA Development, Inc.
Title

February 26, 2003

Bevita Patterson

Notary Public

NOTARY PUBLIC STATE OF ALABAMA AT LARGE
MY COMMISSION EXPIRES: Aug 12, 2003
BONDED THRU NOTARY PUBLIC UNDERWRITERS

This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Independent Auditor's Supplementary Report on INTERNAL CONTROL

For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3). **STRUCTURE

SCA DEVELOPMENT, INC.

(a wholly-owned subsidiary of HEALTHSOUTH Corporation)

Financial Statements and Supplementary Information

Years ended December 31, 2002 and 2001

with Report of Independent Auditors

SCA Development, Inc.
(a wholly-owned subsidiary of
HEALTHSOUTH Corporation)

Financial Statements
and Supplementary Information

Years ended December 31, 2002 and 2001

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Report of Independent Auditors

Board of Directors and Stockholder
SCA Development, Inc.

We have audited the accompanying statements of financial condition of SCA Development, Inc. (a wholly-owned subsidiary of HEALTHSOUTH Corporation) as of December 31, 2002 and 2001, and the related statements of income, changes in stockholder's equity, changes in liabilities subordinated to claims of general creditors and cash flows for the years then ended, that you are filing pursuant to rule 17a-5 under the Securities and Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCA Development, Inc. at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I and II is presented for purposes of additional analysis and is not a required part of the 2002 basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in our audits of the 2002 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2002 basic financial statements taken as a whole.

Ernst & Young LLP

February 14, 2003

SCA Development, Inc.
(a wholly-owned subsidiary
of HEALTHSOUTH Corporation)

Statements of Financial Condition

	December 31	
	2002	2001
Assets		
Cash	\$ 832,619	\$ 559,881
Receivable from related party	—	95,635
Prepaid expenses	27,979	28,821
Total assets	<u>\$ 860,598</u>	<u>\$ 684,337</u>
Liabilities		
Accounts payable	\$ 42,918	\$ 19,215
Taxes payable to related party	38,702	203,329
Payable to related party	257,908	—
Total liabilities	<u>339,528</u>	<u>222,544</u>
Stockholder's equity		
Common stock, par value \$.01; 1,000 shares authorized, issued and outstanding	10	10
Additional contributed capital in excess of par value of common stock	39,990	39,990
Retained earnings	481,070	421,793
Total stockholder's equity	<u>521,070</u>	<u>461,793</u>
Total liabilities and stockholder's equity	<u>\$ 860,598</u>	<u>\$ 684,337</u>

See accompanying notes.

SCA Development, Inc.
(a wholly-owned subsidiary
of HEALTHSOUTH Corporation)

Statements of Income

	Year ended December 31	
	2002	2001
Revenues	\$ 677,920	\$ 1,110,987
Expenses:		
Salaries, wages and benefits	349,779	444,037
Professional fees	121,478	73,605
Membership and filing fees	75,653	60,954
Other expenses	33,031	11,034
Total expenses	579,941	589,630
Income before income taxes	97,979	521,357
Income tax expense	38,702	203,329
Net income	\$ 59,277	\$ 318,028

See accompanying notes.

SCA Development, Inc.
(a wholly-owned subsidiary
of HEALTHSOUTH Corporation)

Statements of Changes in Stockholder's Equity

Years ended December 31, 2002 and 2001

	Common Stock	Additional Contributed Capital	Retained Earnings	Total Stockholder's Equity
Balance at December 31, 2000	\$ 10	\$ 39,990	\$ 103,765	\$ 143,765
Net income	—	—	318,028	318,028
Balance at December 31, 2001	10	39,990	421,793	461,793
Net income	—	—	59,277	59,277
Balance at December 31, 2002	\$ 10	\$ 39,990	\$ 481,070	\$ 521,070

See accompanying notes.

SCA Development, Inc.
(a wholly-owned subsidiary
of HEALTHSOUTH Corporation)

Statements of Changes in Liabilities Subordinated to Claims of General
Creditors

Years ended December 31, 2002 and 2001

Balance, December 31, 2000	\$	-
Activity		-
Balance, December 31, 2001		-
Activity		-
Balance, December 31, 2002	\$	-

See accompanying notes.

SCA Development, Inc.
(a wholly-owned subsidiary
of HEALTHSOUTH Corporation)

Statements of Cash Flows

	Year ended December 31	
	2002	2001
Operating activities		
Net income	\$ 59,277	\$ 318,028
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease in taxes receivable from related parties	—	19,435
Decrease (increase) in receivables from related parties	95,635	(17,053)
Decrease in prepaid expenses	842	1,324
Increase (decrease) in accounts payable	23,703	(10,865)
(Decrease) increase in tax payables to related parties	(164,627)	203,329
Increase in payables to related parties	257,908	—
Net cash provided by operating activities	272,738	514,198
Cash, beginning of year	559,881	45,683
Cash, end of year	\$ 832,619	\$ 559,881

See accompanying notes.

SCA Development, Inc.
(a wholly-owned subsidiary
of HEALTHSOUTH Corporation)

Notes to Financial Statements
December 31, 2002 and 2001

1. Summary of Significant Accounting Policies

The Company

SCA Development, Inc. (the Company) was incorporated under the laws of Tennessee in June 1993 to sell direct participation programs, primarily limited partnership interests in outpatient health care facilities, to practicing physicians. The Company currently operates throughout the United States. The Company is a wholly-owned subsidiary of HEALTHSOUTH Corporation (HRC) and is included in HRC's consolidated financial statements.

Basis of Presentation

Certain amounts in prior year financial statements have been reclassified to conform to current year presentation.

Use of Estimates in Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenues

Revenues from the sale of limited partnership units sold by the Company are recognized when the sales proceeds are received, generally at the transaction closing date.

SCA Development, Inc.
(a wholly-owned subsidiary
of HEALTHSOUTH Corporation)

Notes to Financial Statements
December 31, 2002 and 2001

1. Summary of Significant Accounting Policies (continued)

Salaries, Wages and Benefits

The Company does not have any full-time employees. Salaries, wages and benefits are based on the actual number of hours spent working on Company business by HRC employees.

Income Taxes

The Company's income taxes are filed in a consolidated federal tax return by HRC. Any federal income tax liability or benefit is apportioned to the Company based upon its taxable income or loss. Any tax benefit resulting from net operating losses is used by HRC to reduce the corporate tax liability.

Cash Flow Reporting

For purpose of the statement of cash flows, the Company considers all certificates of deposits and highly liquid marketable securities with a maturity of three months or less when purchased to be cash equivalents.

2. Net Capital Requirements

The Company, as a registered broker and dealer in securities, is subject to the Securities and Exchange Commission's Uniform Net Capital Requirements under Rule 15c3-1, which requires maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Aggregate indebtedness at December 31, 2002 was 69% of net capital. At December 31, 2002, the Company had net capital of \$493,091, which was \$470,138 in excess of required net capital.

SCA Development, Inc.
(a wholly-owned subsidiary
of HEALTHSOUTH Corporation)

Notes to Financial Statements
December 31, 2002 and 2001

3. Transaction with Related Parties

Due to the nature of the Company's business, all of its transactions are with related parties. These related parties consist of the various HRC surgery centers which buy and sell limited partnership interests during the year. All revenues are derived from transactions with related parties. HRC pays all of the Company's expenses and is reimbursed for the expenses by the Company.

4. Income Taxes

The Company accounts for income taxes under the liability method required by Financial Accounting Standards Board Statement No. 109, *Accounting for Income Taxes*.

The Company has recorded taxes payable to a related party in the amount of \$38,702 relating to the current year's taxable income. The tax expense relating to the Company's taxable income will be paid by HRC in the 2002 consolidated tax return.

SCA Development, Inc.
(a wholly-owned subsidiary
of HEALTHSOUTH Corporation)

Schedule I

Computation of Net Capital and Aggregate Indebtedness Under Rule 15c3-1
of the Securities and Exchange Commission

	<u>December 31</u> <u>2002</u>
Computation of net capital	
Total stockholder's equity	\$ 521,070
Non allowable assets:	
Prepaid expenses	<u>27,979</u>
Net capital	<u>\$ 493,091</u>
 Computation of basis net capital requirements	
Minimum net capital required (6 2/3% of aggregate indebtedness)	<u>\$ 22,635</u>
 Minimum dollar net capital requirement	<u>\$ 5,000</u>
 Net capital requirement (greater of above amounts)	<u>\$ 22,635</u>
 Excess net capital	<u>\$ 470,456</u>
 Excess net capital at 1,000% (net capital less 10% of aggregate indebtedness)	<u>\$ 459,138</u>
 Computation of aggregate indebtedness	
Total aggregate indebtedness from statement of financial condition	<u>\$ 339,528</u>
 Percentage of aggregate indebtedness to net capital	69%

SCA Development, Inc.
(a wholly-owned subsidiary
of HEALTHSOUTH Corporation)

Schedule II

Statement Pursuant to Rule 17a-5(d)(4)

December 31, 2002

There were no material differences between the computation of net capital under Rule 15c3-1 included in this audited report and the computation included in the respondent's corresponding unaudited amended Form X-17a-5 Part II filing as of December 31, 2002.

Report on Internal Controls Required by SEC Rule 17a-5 for a Broker-Dealer Claiming an Exemption From SEC Rule 15c3-3

Board of Directors and Stockholder
SCA Development, Inc.

In planning and performing our audit of the financial statements and supplemental schedules of SCA Development, Inc. (the Company) for the year ended December 31, 2002, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal controls and of the practices and

procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control or the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2002, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

February 14, 2003